

Canada and the Trans-Pacific Partnership

By Dan Schrier

Despite initial hesitation from some members, Canada has secured an invitation to be included in the negotiations for a Trans-Pacific Partnership (TPP) trade agreement. The TPP has the potential to be one of the most far-reaching trade deals ever negotiated, both in terms of content and size. Originally developed as an agreement among Brunei Darussalam, Chile, New Zealand and Singapore, the TPP expanded to include Australia, Malaysia, Peru, the United States and Vietnam. Mexico and Canada have now been invited to join the talks and Japan has expressed interest as well.

Given the inclusion of North American Free Trade Agreement (NAFTA) members Mexico and the United States, as well as the potential inclusion of Japan and the possibility of future expansion to include other economic giants, such as China, it was critically important that Canada was allowed to join the talks. The TPP will likely eclipse NAFTA in terms of scope, such that leaving Canada on the outside looking in could have seriously jeopardized Canada's trade interests.

Ironically, Canada could have secured an invitation to the talks if it had joined the TPP several years ago when initially invited. However, at the time, Canada preferred to put its efforts into pursuing a global agreement through the World Trade Organization and declined the offer. There was also the issue of Canada's supply management systems for dairy, eggs and poultry, which may have to be dismantled if Canada is to be included in the eventual TPP agreement. Canada's federal government is opposed to giving up supply management and

insists that it will not have to sacrifice the system, but TPP members New Zealand and Australia – two countries that have already dismantled similar supply management systems – are saying otherwise.

Canada's late entry to the discussions could be costly, as one of the conditions is that new entrants accept everything that has already been agreed upon. In other words, Canada cannot open chapters that have already been concluded and, as a result, will have no input into at least a portion of the agreement. In addition, there is a 90-day waiting period during which neither Canada nor Mexico will be admitted to the formal discussions. It is not clear whether or not the two new entrants will have veto power over any of the material concluded during that three-month period. If not, this could put Canada in a position of having to either accept conditions it finds disagreeable, or bow out of the Partnership. Given the importance of exports to Canada's economy and the fact that its NAFTA partners are involved in the TPP, bowing out may not be an option.

Canada's reluctance to give up supply management could render any disagreement with content in the deal moot, as the other members could vote to exclude Canada from entry. The federal government has indicated that everything is on the table in the negotiations, but that it would continue to defend Canada's interests, including the supply management system.

Canada is not the only country with an interest in protecting components of its agriculture sector and, indeed, this is not the first time that agricultural goods have cropped up as a potential roadblock to free trade negotiations. Prior to

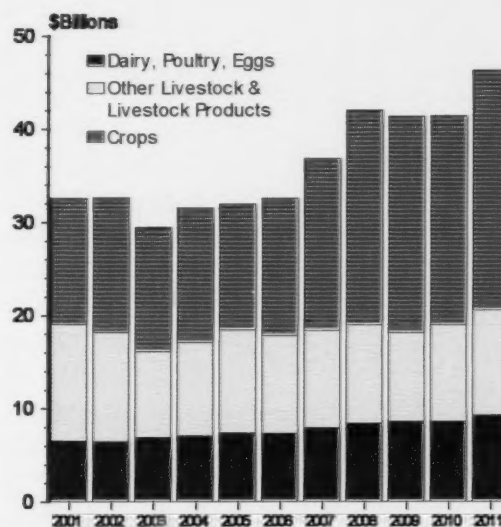
the TPP, the Doha round of the World Trade Organization global trade talks fell apart, largely due to conflicting opinions with regard to agricultural subsidies. Similarly, an attempt to develop a Free Trade Area of the Americas was also derailed partly due to disagreements over agricultural products. Canada's negotiations with the European Union for a Canada-EU trade deal are also being hampered by agricultural concerns, particularly the issue of supply management.

It is difficult to reconcile Canada's insistence on defending the supply management system for dairy, eggs and poultry with the potential economic consequences of keeping that system. With the exception of a small group of farmers who profit from near monopoly control over their products and the subsequent higher prices for their goods, the vast majority of Canadians derive little benefit from supply management. Canadians pay inflated prices for supply managed goods, particularly dairy products, and have less variety in products. Producers of products outside the supply management system, including other farmers, are denied tariff-free access to some markets due to inaction on free trade deals as a result of the refusal to abandon supply management. For example, if a free trade pact with the EU is possible with supply management kept intact, Canada will have to make some trade-offs and it is likely that European tariffs on Canadian beef will not be lifted.¹

Supply managed goods make up a relatively small portion of Canada's overall economy and are even a minority player in Canada's agricul-

tural production. In 2011, only 19% of Canada's total farm cash receipts were derived from the dairy, egg and poultry sectors.² Exports from the supply managed sectors comprised about 0.1% of Canada's total exports.

Canada's supply managed sectors are responsible for a relatively small fraction of the nation's farm cash receipts



Source: Statistics Canada

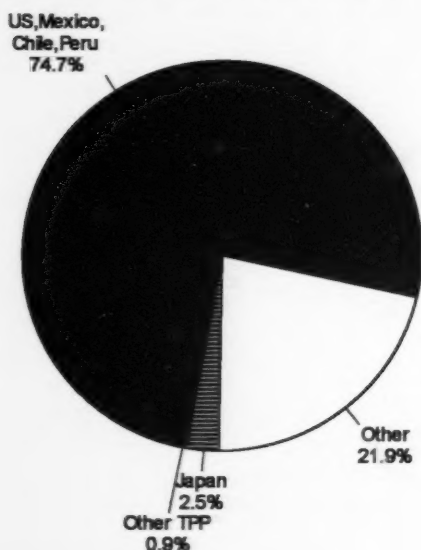
Canada exported over \$419 billion worth of goods to international destinations in 2011. Over three-quarters of these exports were destined for countries currently involved in the TPP trade talks. With respect to trade in services, in 2009 (the latest year for which data are available) around 60% of Canada's exports of services were to countries involved in the TPP negotiations (plus Japan).³

¹ For a more detailed discussion of the issues surrounding the supply management system, see the August 2008 *Exports* article, "Milking the System: Is Canada's Supply Management System an Impediment to Free Trade?"

² Source: Statistics Canada, CANSIM table 002-0001.

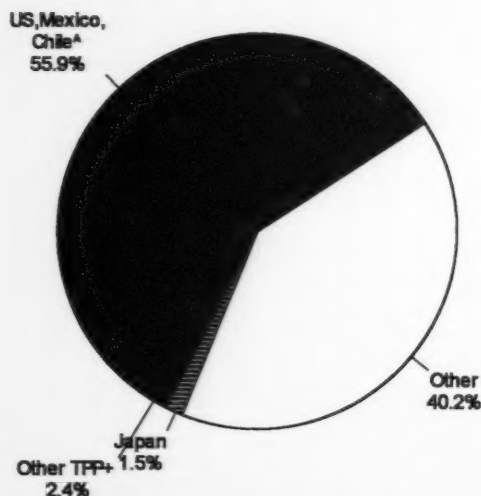
³ Source: Statistics Canada, CANSIM table 376-0036.

The countries involved in the TPP negotiations were the destination of over three-quarters of Canada's goods exports in 2011



Source: Statistics Canada

The TPP countries were the recipient of around 60% of Canada's service exports in 2009*



*2009 is the latest year for which data are available

[†]Data for Peru not available separately and is included in "Other"

[‡]Data for Brunei Darussalam not available separately and is included in "Other"

Source: Statistics Canada

For both goods and services, the bulk of Canada's exports to the TPP countries was to those countries with which Canada already has a free trade agreement (United States, Mexico, Chile, Peru). Given that the scope of the TPP could potentially exceed that of Canada's current agreements, if Canada is left out of the deal, the competitive advantage Canada enjoys with respect to trade with those countries could be eroded.

While it is possible that Canada could manage to retain its supply management system and still gain entry to the TPP, it seems somewhat unlikely given the vehemence of Australia and New Zealand's opposition to allowing that kind of protectionist policy to be maintained within the constructs of the TPP. This may be the perfect opportunity to modernize Canada's agricultural sector and move away from supply management. A change in policy of this nature could bring a spate of new opportunities for trade for Canadian exporters.